

## Part III

### Administrative, Procedural, and Miscellaneous

26 CFR 601.201: Rulings and determination letters.  
(Also Part I, Sections 832, 846; 1.832-4, 1.846-1.)

Rev. Proc. 2005-73

#### SECTION 1. PURPOSE

This revenue procedure prescribes the salvage discount factors for the 2005 accident year. These factors must be used to compute discounted estimated salvage recoverable under § 832 of the Internal Revenue Code.

#### SEC. 2. BACKGROUND

Section 832(b)(5)(A) requires that all estimated salvage recoverable (including that which cannot be treated as an asset for state accounting purposes) be taken into account in computing the deduction for losses incurred. Under § 832(b)(5)(A), paid losses are to be reduced by salvage and reinsurance recovered during the taxable year. This amount is adjusted to reflect changes in discounted unpaid losses on nonlife insurance contracts and in unpaid losses on life insurance

contracts. An adjustment is then made to reflect any changes in discounted estimated salvage recoverable and in reinsurance recoverable.

Pursuant to § 832(b), the amount of estimated salvage is determined on a discounted basis in accordance with procedures established by the Secretary.

### SEC. 3. SCOPE

This revenue procedure applies to any taxpayer that is required to discount estimated salvage recoverable under § 832.

### SEC. 4. APPLICATION

.01 The following tables present separately for each line of business the discount factors under § 832 for the 2005 accident year. All the discount factors presented in this section were determined using the applicable interest rate under § 846(c) for 2005, which is 4.44 percent, and by assuming all estimated salvage is recovered in the middle of each calendar year. See Rev. Proc. 2003-18, 2003-6 I.R.B. 439, for background regarding the tables.

.02 These tables must be used by taxpayers irrespective of whether they elected to discount unpaid losses using their own historical experience under § 846.

.03 Section V of Notice 88-100, 1988-2 C.B. 439, provides a composite discount factor to be used in determining the discounted unpaid losses for accident years that are not separately reported on the NAIC Annual Statement. The tables separately provide discount factors for taxpayers who elect to use the composite method. Rev. Proc. 2002-74, 2002-51 I.R.B. 980, clarifies that for certain insurance companies subject to tax under § 831 the composite method for discounting unpaid losses set forth in Notice 88-100, section V, 1988-2 C.B. 419, is permitted but not required. This revenue procedure further provides alternative methods for computing discounted unpaid losses that are permitted for insurance companies not using the composite

method, and sets forth a procedure for insurance companies to obtain automatic consent of the Commissioner to change to one of the methods described in Rev. Proc. 2002-74.

.04 Tables.

**Tables of Factors to be Used to Discount  
Salvage Recoverable With Respect to Losses Incurred in  
Accident Year 2005**

**(Interest rate: 4.44 percent)**

**Accident and Health (Other Than Disability Income or Credit Disability Insurance)**

Taxpayers that do not use the composite method of Notice 88-100 should use 97.8513 percent to discount salvage recoverable with respect to losses incurred in this line of business in the 2005 accident year as of the end of the 2005 and later taxable years.

Taxpayers that use the composite method of Notice 88-100 should use 97.8513 percent to discount all salvage recoverable in this line of business as of the end of the 2005 taxable year.

**Auto Physical Damage**

| Tax Year | Discount<br>Factors<br>(%) |
|----------|----------------------------|
| 2005     | 96.8175                    |
| 2006     | 95.7713                    |

Taxpayers that do not use the composite method of Notice 88-100 should use the following factor to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2005 accident year.

|                      |         |
|----------------------|---------|
| 2007 and later years | 97.8513 |
|----------------------|---------|

Taxpayers that use the composite method of Notice 88-100 should use 97.8513 percent to discount salvage recoverable as of the end of the 2007 taxable year with respect to losses incurred in this line of business in 2005 and prior years.

**Commercial Auto/Truck Liability/Medical**

| Tax Year | Discount<br>Factors<br>(%) |
|----------|----------------------------|
| 2005     | 91.3239                    |
| 2006     | 91.0477                    |
| 2007     | 90.8320                    |
| 2008     | 91.3071                    |
| 2009     | 91.8090                    |
| 2010     | 91.2746                    |
| 2011     | 92.4705                    |
| 2012     | 93.5064                    |
| 2013     | 93.7878                    |
| 2014     | 95.8004                    |

Taxpayers that do not use the composite method of Notice 88-100 should use the following factor to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2005 accident year.

|                      |         |
|----------------------|---------|
| 2015 and later years | 97.8513 |
|----------------------|---------|

Taxpayers that use the composite method of Notice 88-100 should use 97.8513 percent to discount salvage recoverable as of the end of the 2015 taxable year with respect to losses incurred in this line of business in 2005 and prior years.

**Composite**

| Tax Year | Discount<br>Factors<br>(%) |
|----------|----------------------------|
| 2005     | 91.2231                    |
| 2006     | 89.9591                    |
| 2007     | 89.4423                    |
| 2008     | 88.8551                    |
| 2009     | 87.7165                    |
| 2010     | 87.7929                    |
| 2011     | 87.5509                    |
| 2012     | 87.5159                    |
| 2013     | 87.6545                    |
| 2014     | 89.4906                    |

Taxpayers that do not use the composite method of Notice 88-100 should use the following factors to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2005 accident year.

|                      |         |
|----------------------|---------|
| 2015                 | 91.3750 |
| 2016                 | 93.3052 |
| 2017                 | 95.2703 |
| 2018                 | 97.2162 |
| 2019 and later years | 97.8513 |

Taxpayers that use the composite method of Notice 88-100 should use 92.9728 percent to discount salvage recoverable as of the end of the 2015 taxable year with respect to losses incurred in this line of business in 2005 and prior years.

**Fidelity/Surety**

| Tax Year | Discount<br>Factors<br>(%) |
|----------|----------------------------|
| 2005     | 93.6793                    |
| 2006     | 95.7713                    |

Taxpayers that do not use the composite method of Notice 88-100 should use the following factor to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2005 accident year.

|                      |         |
|----------------------|---------|
| 2007 and later years | 97.8513 |
|----------------------|---------|

Taxpayers that use the composite method of Notice 88-100 should use 97.8513 percent to discount salvage recoverable as of the end of the 2007 taxable year with respect to losses incurred in this line of business in 2005 and prior years.

**Financial Guaranty/Mortgage Guaranty**

| Tax Year | Discount<br>Factors<br>(%) |
|----------|----------------------------|
| 2005     | 95.0705                    |
| 2006     | 95.7713                    |

Taxpayers that do not use the composite method of Notice 88-100 should use the following factor to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2005 accident year.

|                      |         |
|----------------------|---------|
| 2007 and later years | 97.8513 |
|----------------------|---------|

Taxpayers that use the composite method of Notice 88-100 should use 97.8513 percent to discount salvage recoverable as of the end of the 2007 taxable year with respect to losses incurred in this line of business in 2005 and prior years.

**International (Composite)**

| Tax Year | Discount<br>Factors<br>(%) |
|----------|----------------------------|
| 2005     | 91.2231                    |
| 2006     | 89.9591                    |
| 2007     | 89.4423                    |
| 2008     | 88.8551                    |
| 2009     | 87.7165                    |
| 2010     | 87.7929                    |
| 2011     | 87.5509                    |
| 2012     | 87.5159                    |
| 2013     | 87.6545                    |
| 2014     | 89.4906                    |

Taxpayers that do not use the composite method of Notice 88-100 should use the following factors to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2005 accident year.

|                      |         |
|----------------------|---------|
| 2015                 | 91.3750 |
| 2016                 | 93.3052 |
| 2017                 | 95.2703 |
| 2018                 | 97.2162 |
| 2019 and later years | 97.8513 |

Taxpayers that use the composite method of Notice 88-100 should use 92.9728 percent to discount salvage recoverable as of the end of the 2015 taxable year with respect to losses incurred in this line of business in 2005 and prior years.

**Medical Malpractice -- Claims-Made**

| Tax Year | Discount<br>Factors<br>(%) |
|----------|----------------------------|
| 2005     | 86.4755                    |
| 2006     | 81.7167                    |
| 2007     | 86.5261                    |
| 2008     | 84.1162                    |
| 2009     | 85.1368                    |
| 2010     | 79.5241                    |
| 2011     | 89.5664                    |
| 2012     | 92.5368                    |
| 2013     | 96.0623                    |
| 2014     | 97.8513                    |

Taxpayers that do not use the composite method of Notice 88-100 should use the following factor to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2005 accident year.

|                      |         |
|----------------------|---------|
| 2015 and later years | 97.8513 |
|----------------------|---------|

Taxpayers that use the composite method of Notice 88-100 should use 97.8513 percent to discount salvage recoverable as of the end of the 2015 taxable year with respect to losses incurred in this line of business in 2005 and prior years.

**Medical Malpractice -- Occurrence**

| Tax Year | Discount<br>Factors<br>(%) |
|----------|----------------------------|
| 2005     | 82.3660                    |
| 2006     | 83.5715                    |
| 2007     | 87.2656                    |
| 2008     | 88.7913                    |
| 2009     | 76.0729                    |
| 2010     | 86.2799                    |
| 2011     | 91.5010                    |
| 2012     | 94.5994                    |
| 2013     | 96.3703                    |
| 2014     | 97.8513                    |

Taxpayers that do not use the composite method of Notice 88-100 should use the following factor to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2005 accident year.

|                      |         |
|----------------------|---------|
| 2015 and later years | 97.8513 |
|----------------------|---------|

Taxpayers that use the composite method of Notice 88-100 should use 97.8513 percent to discount salvage recoverable as of the end of the 2015 taxable year with respect to losses incurred in this line of business in 2005 and prior years.

**Miscellaneous Casualty**

| Tax Year | Discount<br>Factors<br>(%) |
|----------|----------------------------|
| 2005     | 96.3339                    |
| 2006     | 95.7713                    |

Taxpayers that do not use the composite method of Notice 88-100 should use the following factor to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2005 accident year.

|                      |         |
|----------------------|---------|
| 2007 and later years | 97.8513 |
|----------------------|---------|

Taxpayers that use the composite method of Notice 88-100 should use 97.8513 percent to discount salvage recoverable as of the end of the 2007 taxable year with respect to losses incurred in this line of business in 2005 and prior years.

**Multiple Peril Lines (Homeowners/Farmowners, Commercial Multiple Peril, and Special Liability (Ocean Marine, Aircraft (All Perils), Boiler and Machinery))**

| Tax Year | Discount<br>Factors<br>(%) |
|----------|----------------------------|
| 2005     | 92.1974                    |
| 2006     | 90.4717                    |
| 2007     | 91.2273                    |
| 2008     | 90.9380                    |
| 2009     | 90.5278                    |
| 2010     | 91.7899                    |
| 2011     | 91.8465                    |
| 2012     | 92.0455                    |
| 2013     | 93.6189                    |
| 2014     | 95.6204                    |

Taxpayers that do not use the composite method of Notice 88-100 should use the following factors to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2005 accident year.

|                      |         |
|----------------------|---------|
| 2015                 | 97.6492 |
| 2016 and later years | 97.8513 |

Taxpayers that use the composite method of Notice 88-100 should use 97.6503 percent to discount salvage recoverable as of the end of the 2015 taxable year with respect to losses incurred in this line of business in 2005 and prior years.

**Other (Including Credit)**

| Tax Year | Discount<br>Factors<br>(%) |
|----------|----------------------------|
| 2005     | 96.5291                    |
| 2006     | 95.7713                    |

Taxpayers that do not use the composite method of Notice 88-100 should use the following factor to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2005 accident year.

|                      |         |
|----------------------|---------|
| 2007 and later years | 97.8513 |
|----------------------|---------|

Taxpayers that use the composite method of Notice 88-100 should use 97.8513 percent to discount salvage recoverable as of the end of the 2007 taxable year with respect to losses incurred in this line of business in 2005 and prior years.

**Other Liability -- Claims-Made**

| Tax Year | Discount Factors (%) |
|----------|----------------------|
| 2005     | 90.7061              |
| 2006     | 81.3335              |
| 2007     | 67.4471              |
| 2008     | 88.0410              |
| 2009     | 84.4392              |
| 2010     | 83.6931              |
| 2011     | 89.9416              |
| 2012     | 93.4492              |
| 2013     | 90.2612              |
| 2014     | 92.1610              |

Taxpayers that do not use the composite method of Notice 88-100 should use the following factors to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2005 accident year.

|                      |         |
|----------------------|---------|
| 2015                 | 94.1004 |
| 2016                 | 96.0538 |
| 2017 and later years | 97.8513 |

Taxpayers that use the composite method of Notice 88-100 should use 95.1292 percent to discount salvage recoverable as of the end of the 2015 taxable year with respect to losses incurred in this line of business in 2005 and prior years.

**Other Liability -- Occurrence**

| Tax Year | Discount Factors (%) |
|----------|----------------------|
| 2005     | 85.5304              |
| 2006     | 86.9478              |
| 2007     | 88.0380              |
| 2008     | 84.7457              |
| 2009     | 88.1991              |
| 2010     | 90.6498              |
| 2011     | 91.0248              |
| 2012     | 93.0642              |
| 2013     | 94.3646              |
| 2014     | 96.2845              |

Taxpayers that do not use the composite method of Notice 88-100 should use the following factor to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2005 accident year.

|                      |         |
|----------------------|---------|
| 2015 and later years | 97.8513 |
|----------------------|---------|

Taxpayers that use the composite method of Notice 88-100 should use 97.8513 percent to discount salvage recoverable as of the end of the 2015 taxable year with respect to losses incurred in this line of business in 2005 and prior years.

**Private Passenger Auto Liability/Medical**

|          | Discount       |
|----------|----------------|
| Tax Year | Factors<br>(%) |
| 2005     | 94.1806        |
| 2006     | 93.9873        |
| 2007     | 93.7150        |
| 2008     | 92.9128        |
| 2009     | 92.6982        |
| 2010     | 91.6917        |
| 2011     | 91.6408        |
| 2012     | 91.7062        |
| 2013     | 92.8870        |
| 2014     | 94.8239        |

Taxpayers that do not use the composite method of Notice 88-100 should use the following factors to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2005 accident year.

|                      |         |
|----------------------|---------|
| 2015                 | 96.7269 |
| 2016 and later years | 97.8513 |

Taxpayers that use the composite method of Notice 88-100 should use 96.9284 percent to discount salvage recoverable as of the end of the 2015 taxable year with respect to losses incurred in this line of business in 2005 and prior years.

**Products Liability -- Claims-Made**

| Tax Year | Discount<br>Factors<br>(%) |
|----------|----------------------------|
| 2005     | 86.9346                    |
| 2006     | 86.9867                    |
| 2007     | 88.6095                    |
| 2008     | 14.1032                    |
| 2009     | 80.6321                    |
| 2010     | 86.8941                    |
| 2011     | 91.3609                    |
| 2012     | 95.4486                    |
| 2013     | 30.7119                    |
| 2014     | 95.8584                    |

Taxpayers that do not use the composite method of Notice 88-100 should use the following factor to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2005 accident year.

|                      |         |
|----------------------|---------|
| 2015 and later years | 97.8513 |
|----------------------|---------|

Taxpayers that use the composite method of Notice 88-100 should use 97.8513 percent to discount salvage recoverable as of the end of the 2015 taxable year with respect to losses incurred in this line of business in 2005 and prior years.

**Products Liability -- Occurrence**

| Tax Year | Discount<br>Factors<br>(%) |
|----------|----------------------------|
| 2005     | 81.4063                    |
| 2006     | 83.9954                    |
| 2007     | 84.6302                    |
| 2008     | 87.2364                    |
| 2009     | 84.7065                    |
| 2010     | 88.1295                    |
| 2011     | 91.1267                    |
| 2012     | 91.8405                    |
| 2013     | 86.5573                    |
| 2014     | 88.3625                    |

Taxpayers that do not use the composite method of Notice 88-100 should use the following factors to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2005 accident year.

|                      |         |
|----------------------|---------|
| 2015                 | 90.2160 |
| 2016                 | 92.1163 |
| 2017                 | 94.0579 |
| 2018                 | 96.0181 |
| 2019 and later years | 97.8513 |

Taxpayers that use the composite method of Notice 88-100 should use 93.2359 percent to discount salvage recoverable as of the end of the 2015 taxable year with respect to losses incurred in this line of business in 2005 and prior years.

**Reinsurance A (Nonproportional Assumed Property)**

| Tax Year | Discount<br>Factors<br>(%) |
|----------|----------------------------|
| 2005     | 86.3118                    |
| 2006     | 83.4802                    |
| 2007     | 87.5160                    |
| 2008     | 91.1738                    |
| 2009     | 91.8031                    |
| 2010     | 93.5092                    |
| 2011     | 95.2399                    |
| 2012     | 96.4668                    |
| 2013     | 97.0401                    |
| 2014     | 97.8513                    |

Taxpayers that do not use the composite method of Notice 88-100 should use the following factor to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2005 accident year.

|                      |         |
|----------------------|---------|
| 2015 and later years | 97.8513 |
|----------------------|---------|

Taxpayers that use the composite method of Notice 88-100 should use 97.8513 percent to discount salvage recoverable as of the end of the 2015 taxable year with respect to losses incurred in this line of business in 2005 and prior years.

**Reinsurance B (Nonproportional Assumed Liability)**

| Tax Year | Discount<br>Factors<br>(%) |
|----------|----------------------------|
| 2005     | 85.7554                    |
| 2006     | 83.4923                    |
| 2007     | 86.6760                    |
| 2008     | 84.5425                    |
| 2009     | 77.7160                    |
| 2010     | 81.2321                    |
| 2011     | 80.6015                    |
| 2012     | 82.8262                    |
| 2013     | 77.8936                    |
| 2014     | 85.2736                    |

Taxpayers that do not use the composite method of Notice 88-100 should use the following factors to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2005 accident year.

|                      |         |
|----------------------|---------|
| 2015                 | 87.3145 |
| 2016                 | 89.5053 |
| 2017                 | 91.9023 |
| 2018                 | 94.6103 |
| 2019 and later years | 97.8513 |

Taxpayers that use the composite method of Notice 88-100 should use 89.5188 percent to discount salvage recoverable as of the end of the 2015 taxable year with respect to losses incurred in this line of business in 2005 and prior years.

**Reinsurance C (Nonproportional Assumed Financial Lines)**

| Tax Year | Discount<br>Factors<br>(%) |
|----------|----------------------------|
| 2005     | 85.5377                    |
| 2006     | 86.2730                    |
| 2007     | 89.6741                    |
| 2008     | 87.1586                    |
| 2009     | 90.2843                    |
| 2010     | 83.5843                    |
| 2011     | 86.7077                    |
| 2012     | 93.3620                    |
| 2013     | 94.6849                    |
| 2014     | 96.5870                    |

Taxpayers that do not use the composite method of Notice 88-100 should use the following factor to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2005 accident year.

|                      |         |
|----------------------|---------|
| 2015 and later years | 97.8513 |
|----------------------|---------|

Taxpayers that use the composite method of Notice 88-100 should use 97.8513 percent to discount salvage recoverable as of the end of the 2015 taxable year with respect to losses incurred in this line of business in 2005 and prior years.

**Special Property (Fire, Allied Lines, Inland Marine, Earthquake, Glass, Burglary and Theft)**

| Tax Year | Discount<br>Factors<br>(%) |
|----------|----------------------------|
| 2005     | 94.0942                    |
| 2006     | 95.7713                    |

Taxpayers that do not use the composite method of Notice 88-100 should use the following factor to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2005 accident year.

|                      |         |
|----------------------|---------|
| 2007 and later years | 97.8513 |
|----------------------|---------|

Taxpayers that use the composite method of Notice 88-100 should use 97.8513 percent to discount salvage recoverable as of the end of the 2007 taxable year with respect to losses incurred in this line of business in 2005 and prior years.

## Workers' Compensation

| Tax Year | Discount<br>Factors<br>(%) |
|----------|----------------------------|
| 2005     | 86.3894                    |
| 2006     | 87.6481                    |
| 2007     | 88.0853                    |
| 2008     | 88.0120                    |
| 2009     | 87.3618                    |
| 2010     | 88.1750                    |
| 2011     | 87.9837                    |
| 2012     | 88.1613                    |
| 2013     | 88.9764                    |
| 2014     | 90.8396                    |

Taxpayers that do not use the composite method of Notice 88-100 should use the following factors to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2005 accident year.

|                      |         |
|----------------------|---------|
| 2015                 | 92.7444 |
| 2016                 | 94.6769 |
| 2017                 | 96.5791 |
| 2018 and later years | 97.8513 |

Taxpayers that use the composite method of Notice 88-100 should use 94.0730 percent to discount salvage recoverable as of the end of the 2015 taxable year with respect to losses incurred in this line of business in 2005 and prior years.

## DRAFTING INFORMATION

The principal author of this revenue procedure is Katherine A. Hossofsky of the Office of the Associate Chief Counsel (Financial Institutions & Products). For further information regarding this revenue procedure, contact Ms. Hossofsky at (202)622-8435 (not a toll free call).